



April 16, 1998

Honorable Dan Burton
Chairman
Committee on Government Reform
and Oversight
House of Representatives
Washington, DC 205156143

Dear Mr. Chairman:

Thank you for letting us know of your concerns in connection with the cost and revenue projections involved in the pending postal rate proposal.

Before addressing the three specific types of data you listed, I want to assure you that the Postal Service is making every effort to keep our rates as stable and as low as we can while meeting our obligations. We believe that the best way to retain the public's confidence in the rate setting process, and in their postal system generally, is to keep rate increases below inflation and also continually improve service. Thus, in the current rate filing, we deliberately sought to propose rate increases that, on average, are half the rate of inflation. Under the law and the Postal Rate Commission's rules, we could have justified a larger increase, if we had based our filing on the projected Fiscal Year 1999 costs and included in our revenue requirement a more typical three percent contingency factor. Instead, we minimized the adjustment to what we felt was absolutely necessary. Thus, we based our filing on projected Fiscal Year 1998 costs, knowing that even at the earliest, the rates would not be approved before much of this year was already past. We also reduced the contingency factor to an unprecedented one percent.

It would be good if there were some way to work into any rate adjustment a perfect knowledge of exactly what our costs and revenues will be during the period over which the rates will, in fact, remain in effect. In practice, the rate process that we have necessarily has to rely on forward-looking estimates, and operates under time constraints. The process of changing rates is a long one. It takes the Postal Service about six months to prepare a comprehensive, omnibus rate filing meeting the PRC's rules. The statute requires a recommended decision within ten months of filing, and the litigation before the PRC in an omnibus case almost always takes that long. This time, for the first time ever, the PRC wanted to extend the process past the statutory deadline and delay the case to incorporate later data which all parties knew from the start of the case would not be available in time.

By necessity, continuous updates are not possible when there is a deadline to be met. We have complied with all of the PRC's filing requirement and have provided available data. Our basic financial reports go to the PRC automatically as soon as they come out. We believe it is in everyone's best interest for the standard schedule under the law and the timetable set by the PRC months ago for this case to be completed in the allotted ten months.

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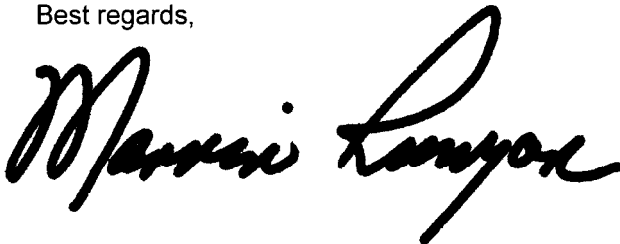
Your first request related to providing the final Fiscal Year 1997 financial results. The final, audited FY 1997 report, showing Postal Service total revenues, costs, and profits for that year, was provided to the PRC and to the public on schedule in January of this year. We published these results on page 1 of our Annual Report, which accompanies this letter. Besides providing these data for inclusion in the current rate case, we have filed rebuttal testimony in the case, subject to cross-examination by the parties, taking these results and even more recent data into consideration, and indicating adjustments that if adopted would lower the estimated costs in the test year by \$636 million. At the same time, our testimony addressed other cost factors, including such items as recent estimates for the Year 2000 system conversion costs and additional transportation costs for improved service, which would increase expenses by approximately \$450 million.

Your second request was for profit and loss statements for domestic mail versus international mail. A breakout of total expenses by class and subclass of mail is contained in the annual Cost and Revenue Analysis Report, which is automatically filed with the PRC as soon as it becomes available. The profit and loss information you requested also depends upon this report. The breakdown of our total cost data by category of mail requires extensive processing of statistical sampling data and review by our independent outside auditor. This information does not become available until May, when our auditor's review of the Fiscal Year 1997 CRA is complete. The PRC is familiar with this timing. We will provide the requested information to you as soon as it becomes available.

Your third request was for the final profit and loss data for domestic versus international parcels. The Fiscal Year 1997 CRA will provide details for all major domestic categories of mail, including those that are exclusively or predominantly parcels. Thus, the information requested for domestic parcels will become available in May, as noted above. Detailed cost and contribution data for international categories of mail is not finalized until after the CRA is complete. The detailed international data, moreover, are commercially sensitive, and are not made available to the public, either by the Postal Service or by its international competitors. The data are not relevant to the current domestic rate proceeding. International pricing changes are not included in our rate filings with the PRC. When they become available, however, if you are interested in them, we would be happy to provide them to you on a confidential basis.

Again, you may rest assured that the Postal Service is committed to take every possible step to keep our prices as reasonable and as stable we can and to provide the best service we can for the benefit of the American people.

Best regards,

A handwritten signature in black ink, reading "Marvin Runyon". The signature is written in a cursive, flowing style with a large, prominent "M" and "R".